

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Branch County Road Commission		County Branch	
Audit Date 12/31/05		Opinion Date 3/23/06		Date Accountant Report Submitted to State: 4/21/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA				
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI	Zip 48605
Accountant Signature 				

**BRANCH COUNTY ROAD
COMMISSION**
(a Component Unit of Branch County)



Coldwater, Michigan

FINANCIAL STATEMENTS

For The Year Ended December 31, 2005



REHMANN ROBSON

Certified Public Accountants

BRANCH COUNTY ROAD COMMISSION
(a Component Unit of Branch County)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements for the Year Ended December 31, 2005	
Statement of Net Assets and General Fund Balance Sheet	9
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	10
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	11
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	13
Notes to Financial Statements	14-23
Operating Fund Schedules	
General Operating Fund – Detail Schedule of Revenue and Other Financing Sources – Budget and Actual	24
General Operating Fund – Detail Schedule of Expenditures – Budget and Actual	25
General Operating Fund – Schedule of Revenue, Expenditures and Changes in Fund Balances	26



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

March 23, 2006

Members of the Board of County
Road Commissioners
County of Branch, Michigan
Coldwater, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **BRANCH COUNTY ROAD COMMISSION**, a component unit of Branch County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Branch County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Branch County Road Commission** as of December 31, 2005, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Branch County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Branch County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2005.

Financial Highlights

The Branch County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Branch County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$28,102,054 at the end of the fiscal year. There was a decrease of \$246,919 in net assets during 2005.

The Road Commission's debt decreased by approximately \$204,000 during the current fiscal year; no new debt was issued.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Branch County.

The government-wide financial statements include only the Commission itself (known as the *Primary government*). The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Branch County which reports the Commission as a component unit.

The government-wide financial statements can be found starting on page 9 of this report.

Fund financial statements. A *fund* is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the financial reporting in the general fund is narrower than that of the financial reporting at the government-wide level, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found on pages 14 through 23 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Condensed Statement of Net assets:

	<u>2004</u>	<u>2005</u>
Current and other assets	\$ 1,888,803	\$ 1,583,073
Capital assets	<u>27,756,360</u>	<u>27,664,480</u>
Total assets	<u>29,645,163</u>	<u>29,247,553</u>
Long-term liabilities outstanding	807,926	604,143
Other liabilities	<u>488,264</u>	<u>541,356</u>
Total liabilities	<u>1,296,190</u>	<u>1,145,499</u>
Net assets:		
Invested in capital assets	27,301,658	27,384,238
Restricted	-0-	-0-
Unrestricted	<u>1,047,315</u>	<u>717,816</u>
Total net assets	<u>\$28,348,973</u>	<u>\$ 28,102,054</u>

Condensed Statement of Activities:

Revenue		
Permits	\$ 21,085	\$ 19,540
Federal Sources	366,913	176,133
State Sources	4,688,373	4,229,323
Local Sources	475,332	485,290
Charges for Services	1,822,543	1,780,680
Interest and Rentals	8,362	10,282
Other	<u>69,780</u>	<u>188,846</u>
Total revenue	<u>7,452,388</u>	<u>6,890,094</u>
Expenses		
Public Works	6,599,568	7,124,199
Debt Service - Interest only	<u>24,285</u>	<u>12,814</u>
Total expenses	<u>6,623,853</u>	<u>7,137,013</u>
Increase in net assets	<u>828,535</u>	<u>(246,919)</u>
Net assets, beginning of year	<u>27,520,438</u>	<u>28,348,973</u>
Net assets, end of year	<u>\$28,348,973</u>	<u>\$28,102,054</u>

Road Commission revenues decreased since there was no sale of federal aid back to the Michigan Department of Transportation, and our township construction work declined. These factors, coupled with the increase in costs for fuel and materials primarily resulted in the reduction in our fund balance of approximately \$337,000. The reduction in net assets mirrored the reduction in fund balance due to the same factors.

Capital Assets and Debt Administration

Branch County Road Commission Capital Assets:

	<u>2004</u>	<u>2005</u>
Land and improvements – not depreciated	<u>\$ 3,095,441</u>	<u>\$3,247,870</u>
Depletable Assets	626,798	626,798
Buildings	1,240,658	1,256,708
Road Equipment	6,436,682	6,567,413
Shop Equipment	229,660	229,660
Office Equipment	88,942	96,717
Engineering Equipment	12,555	12,555
Yard & Storage Equipment	819,800	819,800
Infrastructure		
Roads and Bridges	45,145,235	46,886,462
Traffic Signals	<u>-0-</u>	<u>-0-</u>
Sub-total	<u>54,600,330</u>	<u>56,496,113</u>
Accumulated depreciation		
Depletable Assets	534,558	534,558
Buildings and improvements	843,550	882,382
Road Equipment	5,131,998	5,273,877
Shop Equipment	196,528	205,908
Office Equipment	63,130	72,617
Engineers Equipment	4,562	5,871
Yard & Storage Equipment	528,905	575,850
Infrastructure – Roads	19,156,996	20,934,107
Infrastructure – Bridges	<u>3,479,184</u>	<u>3,594,333</u>
Total accumulated depreciation	<u>29,939,411</u>	<u>32,079,503</u>
Total capital assets being depreciated – net	<u>24,660,919</u>	<u>24,416,610</u>
Governmental activities capital assets – net	<u>\$27,756,360</u>	<u>\$27,664,480</u>

Heavy maintenance expenditures on roadways and bridges increased capital assets by approximately \$2,014,000 in 2005.

Long-term debt

	<u>2004</u>	<u>2005</u>
Lease Purchase Agreements	\$454,702	\$280,242
Compensated absences	<u>353,224</u>	<u>323,901</u>
Total	<u>\$807,926</u>	<u>\$604,143</u>

There were no new borrowings of long-term debt in 2005. Also, existing long-term debt was reduced by approximately \$204,000

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2005 budget during the year to reflect the reduction in revenues as a result of not selling federal aid back to the Michigan Department of Transportation and to allow for a decline in township contributions for construction. Our expenses increased due to higher fuel and material costs.

The reduction in revenue sharing to townships has resulted in less revenue available for construction projects to the Road Commission.

Requests for Information

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager, Branch County Road Commission, 23 E. Garfield Avenue, Coldwater, MI 49036.

BASIC FINANCIAL STATEMENTS

BRANCH COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2005

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and interest bearing deposits	\$ 217,068	\$ -	\$ 217,068
Accounts receivable			
Motor vehicle highway funds	669,251	-	669,251
State Trunkline Maintenance	207,261	-	207,261
Other	18,714	-	18,714
Inventories			
Road materials	296,212	-	296,212
Equipment material and parts	174,567	-	174,567
Capital assets			
Assets not being depreciated		3,247,870	3,247,870
Assets being depreciated, net	-	24,416,610	24,416,610
Total assets	<u>\$ 1,583,073</u>	<u>27,664,480</u>	<u>29,247,553</u>
LIABILITIES			
Accounts payable	\$ 171,652	-	171,652
Accrued liabilities	53,296	5,308	58,604
Short term advances	311,100	-	311,100
Long-term liabilities			
Due within one year		215,992	215,992
Due after one year		388,151	388,151
Total liabilities	<u>536,048</u>	<u>609,451</u>	<u>1,145,499</u>
Fund Balance/Net Assets			
Fund balance			
Reserved for inventories	470,779	(470,779)	-
Unreserved, undesignated	576,246	(576,246)	-
Total fund balance	<u>1,047,025</u>	<u>(1,047,025)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,583,073</u>		
Net Assets			
Invested in capital assets, net of related debt		27,384,238	27,384,238
Unrestricted		717,816	717,816
Total net assets		<u>\$ 28,102,054</u>	<u>\$ 28,102,054</u>

The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2005

Fund balances - General Fund	\$ 1,047,025
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,664,480
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Installment lease purchase agreements payable	(280,242)
Certain liabilities, such as compensated absences and accrued interest, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(5,308)
Deduct - compensated absences payable	(323,901)
Net assets of governmental activities	<u><u>\$ 28,102,054</u></u>

The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2005

	General Operating Fund	Adjustments	Statement of Activities
	<u> </u>	<u> </u>	<u> </u>
EXPENDITURES/EXPENSES			
Current:			
Public works	\$ 7,061,642	\$ 62,557	\$ 7,124,199
Debt service:			
Principal	174,460	(174,460)	-
Interest	15,712	(2,898)	12,814
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES/EXPENSES	7,251,814	(114,801)	7,137,013
	<u> </u>	<u> </u>	<u> </u>
PROGRAM REVENUES			
Charges for services	2,449,356	(23,942)	2,425,414
Operating grants and contributions	4,278,265	-	4,278,265
Capital grants and contributions	176,133	-	176,133
	<u> </u>	<u> </u>	<u> </u>
TOTAL PROGRAM REVENUES	6,903,754	(23,942)	6,879,812
	<u> </u>	<u> </u>	<u> </u>
NET PROGRAM EXPENSES			(257,201)
			<u> </u>
GENERAL REVENUES			
Interest earned	10,282	-	10,282
	<u> </u>	<u> </u>	<u> </u>
NET CHANGE IN FUND BALANCE	(337,778)	337,778	
CHANGES IN NET ASSETS			(246,919)
FUND BALANCE/NET ASSETS,			
Beginning of year	1,384,803	-	28,348,973
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE/NET ASSETS, End of year	\$ 1,047,025	\$ 337,778	\$ 28,102,054
	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balance - General Fund	\$ (337,778)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	579,538
Add - Infrastructure additions	2,013,601
Deduct - depreciation expense	(2,567,110)
Deduct - loss on disposition of capital assets	(117,909)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Deduct: deferred long-term receivables collected in 2005	(23,942)
--	----------

Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Add: lease purchase installment payments	174,460
--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:

Add: decrease in compensated absences	29,323
Add: decrease in accrued interest payable	2,898

Change in net assets of governmental activities	<u><u>\$ (246,919)</u></u>
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The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
REVENUE				
Permits	\$ 20,000	\$ 19,000	\$ 19,540	\$ 540
Intergovernmental:				
Federal sources	300,000	300,000	176,133	(123,867)
State sources	4,042,000	3,783,000	4,253,265	470,265
Local sources	500,000	490,000	485,290	(4,710)
Charges for services	1,352,500	1,864,500	1,780,680	(83,820)
Interest and rentals	12,000	8,500	10,282	1,782
Transfer from primary government	25,000	25,000	25,000	-
Other	420,000	611,000	163,846	(447,154)
TOTAL REVENUE	6,671,500	7,101,000	6,914,036	(186,964)
EXPENDITURES				
Current:				
Primary heavy maintenance	1,700,000	1,150,000	1,312,655	162,655
Local heavy maintenance	800,000	750,000	765,308	15,308
Primary maintenance	1,800,000	2,050,000	2,148,716	98,716
Local maintenance	1,100,000	1,400,000	1,384,194	(15,806)
Trunkline maintenance	1,250,000	1,440,000	1,458,380	18,380
Trunkline nonmaintenance	50,000	1,800	22,507	20,707
Equipment - net	(350,000)	(460,000)	(280,873)	179,127
Administrative - net	450,000	466,000	338,314	(127,686)
Capital outlay - net	(225,000)	(95,000)	(87,299)	7,701
Debt service	177,650	190,000	190,172	172
Other	268,850	400,000	(260)	(400,260)
TOTAL EXPENDITURES	7,021,500	7,292,800	7,251,814	(40,986)
REVENUE UNDER EXPENDITURES	(350,000)	(191,800)	(337,778)	(145,978)
OTHER FINANCING SOURCES				
Installment Purchase/lease proceeds	350,000	640,000	-	(640,000)
NET CHANGE IN FUND BALANCES	-	448,200	(337,778)	(785,978)
FUND BALANCE, Beginning of year	1,572,347	1,384,803	1,384,803	-
FUND BALANCE, End of year	\$ 1,572,347	\$ 1,833,003	\$ 1,047,025	\$ (785,978)

The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Branch County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Branch County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Branch, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Branch County Road Commission, a discretely presented component unit of Branch County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

Basis of Presentation

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. The general fund is considered to be a major fund for financial reporting purposes.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Budgetary Data

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund is adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control are disclosed on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting, which is the same basis as the financial statements. Excess expenditures over budget at this level are disclosed on the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – for the general fund.

Available revenues and underspending in other functional categories were used to offset overexpenditures in the general fund.

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Fund Balance Reservations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and with an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Depreciation is recorded over the estimated useful lives (ranging from five to forty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<u>Asset Category</u>	<u>Useful Life in Years</u>
Buildings and improvements	40
Equipment	5 to 10
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Significant bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2005, the amount of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Petty cash	\$ 500	\$ -
Checking account – insured	-	26,356
Held by Branch County *		
Cash – bank money markets	216,568	216,568
	<u>\$ 217,068</u>	<u>\$ 242,924</u>

* Deposits of the Road Commission held by Branch County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has no investments at December 31, 2005.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Road Commission has no investments at December 31, 2005.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2005, \$26,356 of the Road Commission's bank balance was entirely insured by the Federal Deposit Insurance Corporation. Deposits in the amount of \$216,568 held by Branch County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Road Commission has no investments at December 31, 2005.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	BALANCE - JANUARY 1, 2005	ADDITIONS	DELETIONS	BALANCE - DECEMBER 31, 2005
Capital assets not being depreciated:				
Land and improvements	\$ 46,464	\$ 3,516	\$ -	\$ 49,980
Land improvements - infrastructure	3,048,977	148,913		3,197,890
Total capital assets not being depreciated	3,095,441	152,429	-	3,247,870
Capital assets being depreciated:				
Depletable assets	626,798	-	-	626,798
Buildings	1,240,658	16,050	-	1,256,708
Equipment:				
Road	6,436,682	549,629	418,898	6,567,413
Shop	229,660	-	-	229,660
Office	88,942	7,775	-	96,717
Engineers	12,555	2,568	2,568	12,555
Yard and storage	819,800	-	-	819,800
Infrastructure	45,145,235	1,864,688	123,461	46,886,462
Subtotal	54,600,330	2,440,710	544,927	56,496,113
Accumulated depreciation and depletion				
Depletable assets	534,558	-	-	534,558
Buildings	843,550	38,832	-	882,382
Equipment:				
Road	5,131,998	531,200	389,321	5,273,877
Shop	196,528	9,380	-	205,908
Office	63,130	9,487	-	72,617
Engineers	4,562	1,416	107	5,871
Yard and storage	528,905	46,945	-	575,850
Infrastructure	22,636,180	1,929,850	37,590	24,528,440
Total accumulated depreciation and depletion	29,939,411	2,567,110	427,018	32,079,503
Total capital assets being depreciated - net	24,660,919	(126,400)	117,909	24,416,610
Governmental activities capital assets - net	\$ 27,756,360	\$ 26,029	\$ 117,909	\$ 27,664,480

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	Balance January 1, 2005	Increases	Decreases	Balance December 31, 2005	Due Within One Year
Installment lease					
purchase agreements	\$ 454,702	\$ -	\$ 174,460	\$ 280,242	\$ 180,992
Compensated absences	353,224	-	29,323	323,901	35,000
Totals	\$ 807,926	\$ -	\$ 203,783	\$ 604,143	\$ 215,992

Lease Purchase Agreements

The Road Commission entered into four purchase agreements for certain equipment secured by the related equipment. Payment terms are as follows:

	<u>Annual Payments</u>	<u>Interest Rates</u>	<u>Final Payment</u>
4 trucks, 1 motor grader and asphalt plant refurbishment	\$102,714 - \$136,860	3.5%	5/07
Excavator	\$53,312	3.8% to 5.25%	12/06

Accrued Sick and Vacation

After the first year of employment, employees can earn one week of vacation. Thereafter employees earn one additional day of vacation per year, until a limit of four weeks is reached. Vacation leave may be accumulated up to a maximum of 1 week over the annual allotment, as of the employee's anniversary date.

Sick leave is earned at the rate of 12 days per year, a maximum of 62.5 days may be accumulated.

Excess sick leave earned above 62.5 days is then converted into personal days. Personal days can be accumulated up to a maximum of 12 days and are paid off on the employee's anniversary date.

Vacation, sick, and personal pay is payable in full when employment ceases.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The annual requirement to amortize the debt outstanding as of December 31, 2005, excluding sick and vacation leave payable, is as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Lease Purchases</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 180,992	\$ 9,180	\$ 190,172
2007	99,250	3,464	102,714
Totals	<u>\$ 280,242</u>	<u>\$ 12,644</u>	<u>\$ 292,886</u>

5. DEFINED BENEFIT PENSION PLAN

The Road Commission contributes to the Branch County Pension Plan, which is a single-employer public employees retirement system that covers all employees of the County, including Road Commission employees. The Plan is funded through the purchase of an Immediate Participation Guarantee (IPG) Group Annuity Contract with the John Hancock Mutual Life Insurance Company. Branch County's policy is to fund pension costs based on an actuarially determined rate of payroll. The portion of the Plan's actuarial accrued liability attributable solely to the Road Commission is not determinable. The Road Commission contributed \$189,953 to the Plan through the County for the year ended December 31, 2005.

A complete disclosure on the Branch County Pension Plan is presented within the County of Branch Comprehensive Annual Financial Report.

6. RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for property, fleet, umbrella, errors and omissions, and dishonesty bond. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

7. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

8. SINGLE AUDIT

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$155,929 of federal dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

9. ECONOMIC DEPENDENCY

The Branch County Road Commission receives a substantial amount of its revenues from federal and state grants. A significant reduction in the level of this support, if this were to occur, could have an effect on the Branch County Road Commission's ability to continue its activities.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Road Commission provides postemployment health care benefits, in accordance with labor contracts and personnel policy. The Road Commission pays for health insurance from age 62 to 65. Currently, 7 retirees meet those eligibility requirements. Additionally, the Road Commission pays \$75 per month for association employees toward retirees health insurance premiums after age 65. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due on a pay as you go basis. During the year, expenditures of \$61,986 were recognized for postemployment health care.

* * * * *

OPERATING FUND SCHEDULES

BRANCH COUNTY ROAD COMMISSION

DETAIL SCHEDULE OF REVENUE BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Permits	\$ 19,000	\$ 19,540	\$ 540
Federal sources:			
Bridge	-	317	317
Surface Transportation Program	300,000	175,816	(124,184)
Total Federal Sources	<u>300,000</u>	<u>176,133</u>	<u>(123,867)</u>
State sources:			
Motor Vehicle Highway Funds - Act 51:			
Engineering	10,000	10,000	-
Primary roads allocation	2,300,000	2,563,545	263,545
Local roads allocation	1,200,000	1,377,081	177,081
Primary urban roads	230,000	276,813	46,813
Local urban roads	21,000	25,767	4,767
Other	22,000	59	(21,941)
Total State Sources	<u>3,783,000</u>	<u>4,253,265</u>	<u>470,265</u>
Local sources:			
Township contributions	490,000	485,290	(4,710)
Total Local Sources	<u>490,000</u>	<u>485,290</u>	<u>(4,710)</u>
Charges for services:			
Maintenance contract	1,560,000	1,504,829	(55,171)
Salvage sales	4,500	4,254	(246)
Other	300,000	271,597	(28,403)
Total Charges for Services	<u>1,864,500</u>	<u>1,780,680</u>	<u>(83,820)</u>
Interest and rentals	8,500	10,282	1,782
County appropriation	25,000	25,000	-
Other:			
Other	450,000	2,068	(447,932)
Gain on equipment disposal	161,000	161,778	778
Total Other	<u>611,000</u>	<u>163,846</u>	<u>(447,154)</u>
TOTAL REVENUE	<u>\$ 7,101,000</u>	<u>\$ 6,914,036</u>	<u>\$ (186,964)</u>

BRANCH COUNTY ROAD COMMISSION

DETAIL SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2005

	AMENDED BUDGET	ACTUAL	VARIANCE
Heavy maintenance:			
Primary roads and structures	\$ 1,150,000	\$ 1,312,655	\$ 162,655
Local roads and structures	750,000	765,308	15,308
Total Heavy Maintenance	<u>1,900,000</u>	<u>2,077,963</u>	<u>177,963</u>
Maintenance:			
Primary roads and structures, winter and traffic control	2,050,000	2,148,716	98,716
Local roads and structures, winter and traffic control	<u>1,400,000</u>	<u>1,384,194</u>	<u>(15,806)</u>
Total Maintenance	<u>3,450,000</u>	<u>3,532,910</u>	<u>82,910</u>
Trunkline:			
Maintenance	1,440,000	1,458,380	18,380
Nonmaintenance	<u>1,800</u>	<u>22,507</u>	<u>(20,707)</u>
Total Trunkline	<u>1,441,800</u>	<u>1,480,887</u>	<u>(2,327)</u>
Equipment:			
Direct	1,120,000	1,111,262	(8,738)
Indirect	330,000	341,310	11,310
Operating	290,000	320,166	30,166
Less: Equipment rental	<u>(2,200,000)</u>	<u>(2,053,611)</u>	<u>146,389</u>
Total Equipment, net	<u>(460,000)</u>	<u>(280,873)</u>	<u>179,127</u>
Administrative:			
Administration	<u>466,000</u>	<u>338,314</u>	<u>(127,686)</u>
Total Administrative	<u>466,000</u>	<u>338,314</u>	<u>(127,686)</u>
Capital outlay:			
Land improvements, building and equipment	575,000	579,538	4,538
Less - Equipment retirements	(640,000)	(29,577)	
Less - Depreciation	<u>(30,000)</u>	<u>(637,260)</u>	<u>(607,260)</u>
Total Capital Outlay, net	<u>(95,000)</u>	<u>(87,299)</u>	<u>(602,722)</u>
Debt service:			
Principal retirement	175,000	174,460	(540)
Interest and fiscal charges	<u>15,000</u>	<u>15,712</u>	<u>(712)</u>
Total Debt Service	<u>190,000</u>	<u>190,172</u>	<u>172</u>
Other:			
Other	<u>400,000</u>	<u>(260)</u>	<u>(400,260)</u>
TOTAL EXPENDITURES	<u>\$ 7,292,800</u>	<u>\$ 7,251,814</u>	<u>\$ (40,986)</u>

BRANCH COUNTY ROAD COMMISSION

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>DESIGNATED</u>		<u>UNDESIGNATED</u>	
	<u>PRIMARY</u>	<u>LOCAL</u>	<u>COUNTY</u>	
	<u>ROAD FUND</u>	<u>ROAD FUND</u>	<u>ROAD FUND</u>	<u>TOTAL</u>
REVENUE				
Permits	\$ -	\$ -	\$ 19,540	\$ 19,540
Intergovernmental:				
Federal sources	175,816	317	-	176,133
State sources	2,847,040	1,406,225	-	4,253,265
Local sources	-	485,290	-	485,290
Charges for services	-	-	1,780,680	1,780,680
Interest and rentals	-	-	10,282	10,282
County appropriation	-	-	25,000	25,000
Other	-	-	163,846	163,846
TOTAL REVENUE	<u>3,022,856</u>	<u>1,891,832</u>	<u>1,999,348</u>	<u>6,914,036</u>
EXPENDITURES				
Heavy maintenance	1,312,655	765,308	-	2,077,963
Maintenance	2,148,716	1,384,194	-	3,532,910
Trunkline	-	-	1,480,887	1,480,887
Equipment - net	(129,763)	(88,588)	(62,522)	(280,873)
Administrative - net	208,707	129,607	-	338,314
Capital outlay - net	-	-	(87,299)	(87,299)
Debt principal	-	-	174,460	174,460
Interest and fiscal charges	-	-	15,712	15,712
Other	-	-	(260)	(260)
TOTAL EXPENDITURES	<u>3,540,315</u>	<u>2,190,521</u>	<u>1,520,978</u>	<u>7,251,814</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>(517,459)</u>	<u>(298,689)</u>	<u>478,370</u>	<u>(337,778)</u>
OTHER FINANCING SOURCES (USES)				
Interfund adjustments	517,459	298,689	(816,148)	-
NET CHANGE IN FUND BALANCES	-	-	(337,778)	(337,778)
FUND BALANCE, Beginning of year	-	-	1,384,803	1,384,803
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,047,025</u>	<u>\$ 1,047,025</u>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



March 23, 2006

The Board of County Road Commissioners
of Branch County, Michigan
Centreville, Michigan

We have audited the basic financial statements of **BRANCH COUNTY ROAD COMMISSION, a component unit of Branch County**, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 23, 2006

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated January 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Branch County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Branch County Road Commission are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2005. We noted no transactions entered into by Branch County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

We noted no transactions entered into by Branch County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Branch County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on Branch County Road Commission.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Branch County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Board of Road Commissioners and management of Branch County Road Commission, a component unit of Branch County and respective federal and state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohson". The signature is written in a cursive, flowing style with a large initial 'L'.

BRANCH COUNTY ROAD COMMISSION

COMMENT AND RECOMMENDATION

For the Year Ended December 31, 2005

This memorandum does not affect our report dated March 23, 2006, on the basic financial statements of Branch County Road Commission.

Bank Reconciliations/Internal Control

As with other governments the size of the Road Commission, segregation of duties is often difficult to implement. However, there are methods of segregating duties sufficiently to enhance the internal controls to an acceptable level. We noted that one individual prepares the monthly bank reconciliations, among her various duties. Presently, there is no review of the monthly reconciliations by a responsible official. In order to enhance the internal controls in this area, we recommend that another appropriate individual provide a review of the bank reconciliations, and to document the step by initialing and dating.

* * * * *